

Message Text

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USIA-15 ACDA-19 IO-14 COME-00 FRB-02 XMB-07 OPIC-12

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TO SECSTATE WASHDC 5202

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PASS TREASURY AND FEDERAL RESERVE

E.O. 11652:N/A

TAGS: ECON, EFIN, ENRG, FR

SUBJECT: NEW ECONOMIC FORECAST TAKES ACCOUNT OF PETROLEUM SUPPLY
SHORTAGE

1. LE MONDE DECEMBER 4 REPORTS GOVERNMENT FORECASTS OF REAL
FRENCH ECONOMIC GROWTH FOR 1974 HAVE BEEN REDUCED FROM 5.5
PERCENT TO 2.5-3.0 PERCENT. LIKELY CONSEQUENCE OF THIS SAID TO
BE SERIOUS INCREASE IN UNEMPLOYMENT.

2. NEW FORECAST BASED ON REVISED ASSUMPTIONS ABOUT EFFECTS
OF PETROLEUM SUPPLY AND RATES OF GROWTH OF OTHER EUROPEAN COUNTRIES.
FORECAST ASSUMES THAT WHILE FRANCE'S GROWTH WILL SUFFER ONLY
LIGHT DIRECT EFFECTS AS RESULT OF PETROLEUM SHORTAGES, GROWTH
IN REST OF EUROPE COULD BE ZERO IN 1974, AS CONSEQUENCE OF ALREADY
PROJECTED BUSINESS SLOWDOWN PLUS EFFECTS OF PETROLEUM SHORTAGE.
(LE MONDE COMMENTS THAT FRENCH FORECASTERS ARE LESS PESSIMISTIC
THAN EC, WHICH HAS REPORTEDLY PROJECTED 2 PERCENT DROP IN REAL
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PRODUCT OF ALL EC COUNTRIES NEXT YEAR.) THESE DEVELOPMENTS

WOULD IMPACT FRANCE THROUGH LOSS OF EXPORT MARKETS, WHICH WOULD ONLY GROW 405 PERCENT IN VALUE RATHER THAN THE 15 PERCENT PREVIOUSLY FORECAST. THIS LOSS DUE TO BOTH LOWER IMPORT DEMAND OF DEFLATING ECONOMIES AND DIVERSION OF FRANCE'S PETROLEUM PRODUCT EXPORTS TO SERVE ITS OWN INTERNAL NEEDS. THIS TRANSLATES INTO REDUCTION OF 17 BILLION FRANCS IN THE EXPORT FORECAST FOR 1974.

3. LOSS OF EXPORT MARKETS THEN FORECAST TO GENERATE SECONDARY EFFECTS. INVESTMENT WILL BE LOWER. CONSUMPTION WILL ALSO BE REDUCED, FROM 5.5 PERCENT TO 2.5-3.0 PERCENT. THESE EFFECTS WILL PRODUCE LOSS OF GROWTH OF ABOUT 2 PERCENT. AN ADDITIONAL 1 PERCENT IS ADDED FOR THE LOSS OF DIRECT FINAL CONSUMPTION OF PETROLEUM AND PRODUCTS. REVISED FORECAST OF GROWTH IN 1974 IS 2.5 PERCENT - I.E., ORIGINAL 5.5 PERCENT MINUS CORRECTION OF 3 PERCENT.

4. ARTICLE NOTES PETROLEUM PRICE INCREASES WILL TRANSFER BUYING POWER FROM FRANCE AND OTHER DEVELOPED COUNTRIES TO THE ARAB PRODUCERS. A PART OF THIS MONEY WILL PROBABLY COME BACK TO FRANCE IN FORM OF INCREASED PURCHASES OF ARMS AND EQUIPMENTS GOODS. USSR SHOULD ALSO EARN MORE FOREIGN EXCHANGE THROUGH ARMS SALES AND THUS BE ABLE TO IMPORT MORE INDUSTRIAL PRODUCTS FROM EUROPE. THIS EFFECT WAS ESTIMATED TO BE RELATIVELY MINOR, HOWEVER. IRWIN

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